3 Undervalued Canadian Stocks to Buy Right Now

Description

Canadian investors may not know how to handle their stock investments right now. Certainly, it is fair to feel perplexed about how to invest. Markets are near all-time highs, yet there is a stunning amount of economic, political, health, and corporate uncertainty.

With interest rates below 1%, many Canadian investors have no choice but to invest in the stock market. However, given the risks, it is increasingly important to have a diversified portfolio. If you are worried about valuation risk, here are three diverse stocks you can buy at a fair valuation today.

A Canadian defensive stock to hold if the market slides

Infrastructure assets are incredibly defensive. Developed countries (like Canada) rely on necessities like power, natural gas, water, internet, and cellular coverage to function. Consequently, these resources consistently capture very stable demand. That is why **Fortis** (TSX:FTS)(NYSE:FTS) is perennially a solid, steady-as-she-goes Canadian stock you can rely on.

It operates electric and gas distribution utilities across Canada, the U.S., and the Caribbean. It is implementing a capital plan that is expected to grow its rate base and subsequent cash flows by a compounded growth rate of 6% over the next five years.

Chances are good it will raise its already attractive 3.8% dividend by the same rate per year. This Canadian stock is down 5% this month, but it looks attractive for a longer-term buy-and-hold investment.

A top value stock for the pandemic recovery

Certainly, the pandemic recovery has not been as swift as many of us would like. However, at some point, the world will normalize. That could be very beneficial for **Alimentation Couche-Tard** (TSX:ATD.A)(NYSE:ATD.B). It is one of the world's largest operators of convenience stores and gas stations.

More people travelling and commuting means more gas stops (or charging stations) and more merchandise purchases. Sales and earnings in the most recent quarter were basically on par with last year. However, the company sits with $3.4 billion of cash and a manageable amount of debt.

While the company has been challenged to execute a substantial acquisition this year, it has aggressively been buying its stock instead. In fiscal 2021, it purchased $1.063 billion worth of shares. Last week, it just announced that it would buy another $300 million worth of shares from the company's founder, Alain Bouchard. This Canadian stock only trades for 15 times earnings today, so it looks reasonably attractive for a longer-term buy.

A value-priced Canadian tech stock

If you are looking for a value-orientated Canadian technology stock, **Enghouse Systems** (TSX:ENGH) looks interesting. The stock has declined by around 11% this year. However, for a long-minded investor that is a great opportunity. Today, this tech stock trades with an enterprise value-to-EBITDA of just 16. This is the lower end of its historical valuation range.

2020 was a very strong year for Enghouse due to elevated demand from the pandemic, so it's facing some tough comps in 2021. As well, with tech valuations elevated, it has only integrated three (mostly tuck-in) acquisitions in 2021. Consequently, growth has temporarily been flatlined.

Fortunately, this company is a cash flow machine. This Canadian stock produces a 4% free cash flow yield. It pays a 1.2% dividend, but any excess goes straight to the balance sheet or future acquisitions. Management has a significant ownership stake, so they are willing to wait for the right asset at the right price. You may need to be patient with this stock, but I believe patience is worth the long-term compounding reward.

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